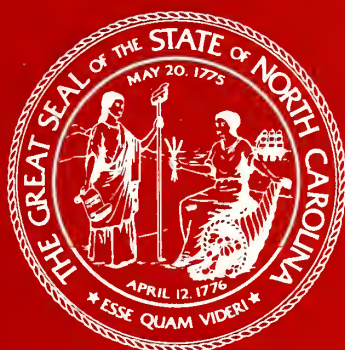


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North Carolina Department of

Insurance

1987-1988

Jim Long
Insurance Commissioner



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Message from the Commissioner

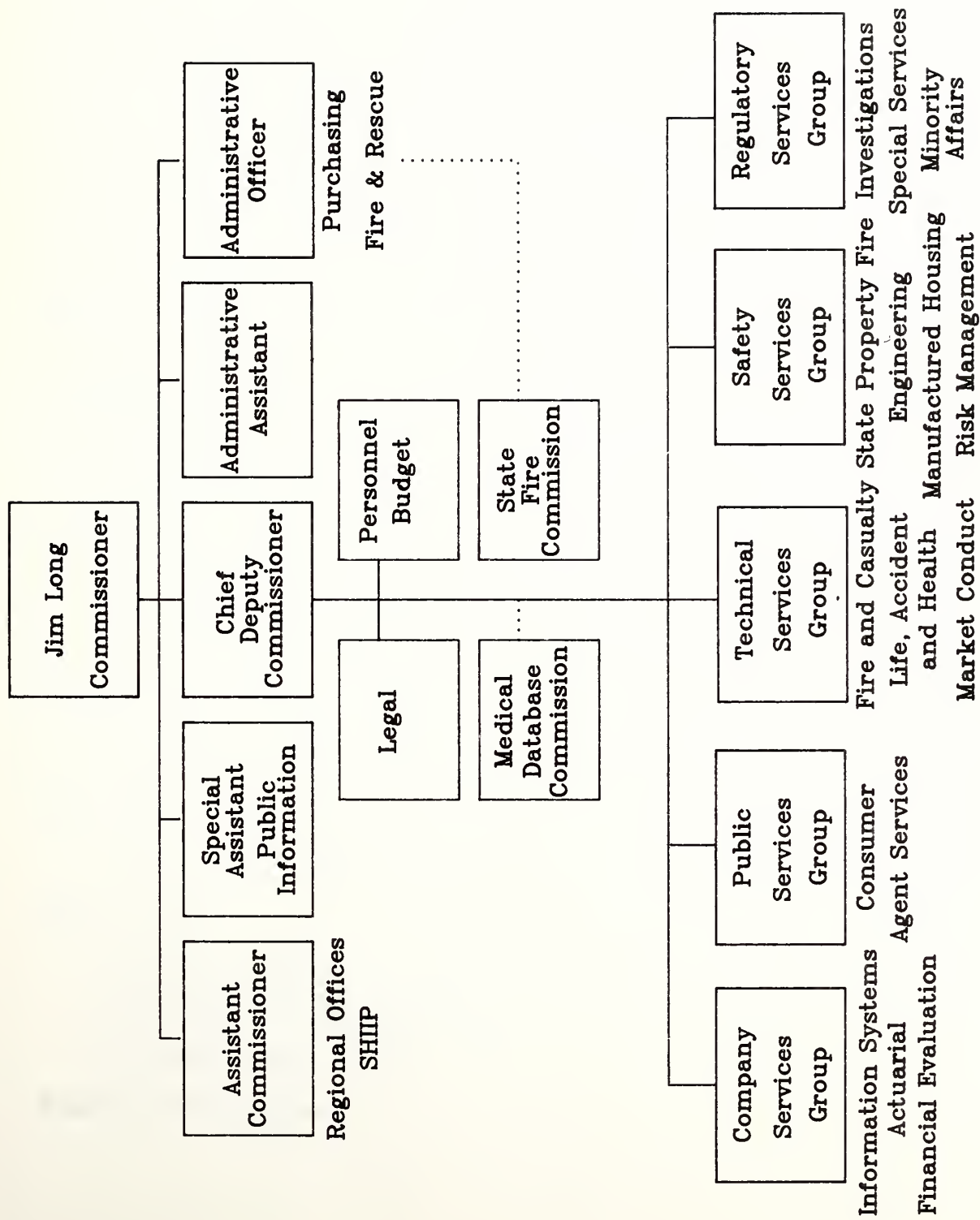
The 1987-88 biennium was an especially productive time for the Department of Insurance.

During the last two years, we continued the progress we made in our first two years -- in bringing the department up-to-date, expanding department services, and making them more effective for greater numbers of North Carolinians.

With the help and wisdom of the General Assembly, we have made important advances in areas that affect consumers, the insurance industry, health care, small business, the elderly and public safety.

I am pleased to submit this report. I believe that it reflects not only the department's progress, but also a new spirit of dedication -- extending from the Commissioner's office to every division and office in the Department of Insurance.

Jim Long
Commissioner of Insurance



N.C. Department of Insurance

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New Directions

During 1987-88, the Department of Insurance has grown in new directions while continuing to build on the new start that accompanied Commissioner Long's 1985 oath of office.

A New Beginning: 1985-86

Early in his first term, the Commissioner began immediately to make good on his pledge to bring the department into a new era of openness and effectiveness.

Out of a special one-day legislative session he had urged the Governor, Lt. Governor and House Speaker to call, the Commissioner got the tools to deal with the worst insurance crisis of this century -- new staff to monitor insurance markets, new rules to keep insurance available, and a new program to help businesses and individuals find the coverages they need. That pioneer program -- the Market Assistance Program -- continues to be the most successful of its kind in the nation.

During 1985-86, an impressive array of initiatives was undertaken to help solve existing problems and to serve North Carolinians in new ways:

- The Seniors' Health Insurance Information Program was begun to train volunteers to counsel the elderly in the crucial but confusing areas of Medicare and Medicare supplement insurance.
- The Office of Minority Assistance was created to help open doors to those minorities, women and handicapped for whom opportunities had been less than full.

- The N.C. Medical Database Commission was established to create a data network to help contain the costs of health care and health insurance.
- The Consumer Services Division was upgraded and equipped to provide faster turnaround and better service to the 40,000 insurance-related complaints the department receives yearly.
- Department communications and operations were computerized, streamlining department functions, improving service, and saving North Carolina citizens tax dollars.

Building On A Beginning: 1987-88

The last two years have seen the Department of Insurance continue to grow in those early directions and in some new directions.

During 1987-88 the department opened regional offices in Asheville and New Bern to increase the availability and effectiveness of departmental services for even more North Carolinians.

At the urging of Commissioner Long, the 1987 General Assembly enabled the department to move into new areas of service to North Carolinians:

- New auto insurance laws allowed the Commissioner to authorize insurance discounts to drivers over age 55; exempted minor moving violations from the recoupment surcharge; and made the insurance point system fairer to all drivers.
- Insurance agent licensing was streamlined, upgraded and simplified and, with the department's new computerization, turnaround for applications was reduced from six months to 48 hours.
- A revised credit insurance law lowered rates 12 1/2% for a first-year savings to consumers of \$28 million.
- The N.C. Health Insurance Trust Commission was established and staffed by the department to help small businesses find the health coverage their employees need. An insurance buying guide geared to small businesses has just been published and statewide demand is growing.

New legislation passed at the Commissioner's urging also: increased the availability of long-term care insurance and protects against unfair trade practices; more firmly regulates Medicare supplement advertising; established a Rescue Workers Relief Fund; and increased grants to local fire departments.

Protecting the Consumer

Under Commissioner Long, North Carolinians enjoy some of the lowest insurance costs in the nation -- from auto and homeowners' insurance to health insurance and workers' compensation.

North Carolinians' insurance costs are kept low by constant vigilance on a number of fronts:

- In just the last year, Commissioner Long has ordered rate rollbacks in auto insurance of -3.9% and -1.4%. In four years, the Commissioner has saved auto policyholders some \$365 million.
- In the last four years, the department's consumer division has helped North Carolinians resolve over 125,000 complaints against insurance companies, returning to or saving policyholders millions of dollars.
- By helping to upgrade and computerize local fire departments, the department has helped them offer better fire protection, resulting in lower losses and lower homeowners' insurance.
- The department has returned to North Carolinians over \$2 million dollars in restitution after successful insurance fraud investigations.
- When a major out-of-state insurer went bankrupt, Commissioner Long negotiated a settlement that resulted in North Carolinians getting over \$170 million in payments in 1987.

Into the Future

In the last four years, Commissioner Jim Long has been credited by a major North Carolina newspaper for modernizing and streamlining the department, ushering the state safely through a period of insurance crisis, and restoring the department's competence, morale and prestige.

As a result, the North Carolina Department of Insurance has become a national leader on issues affecting consumers, small business, the elderly, and public safety.

Following in this section are some new programs and developments of the last few years.

Western Regional Office

In continually growing numbers, citizens of Western North Carolina are making use of the department's new Asheville regional office when they have insurance problems or need department services.

The office has quickly lived up to the aim of making department services more efficient and readily available to the people of Western North Carolina.

Since it opened in the fall of 1987, the office has provided help with mobile home licensing, building code enforcement, insurance fraud investigations, fire and rescue training for local governments, the Seniors' Health Insurance Information Program (SHIIP), and agent pre-licensing training.

This office serves the 29 westernmost counties, but calls from as far away as Michigan, Florida and Texas have been fielded by the staff. Calls for help have more than doubled in the first 12 months of operation.

Consumer complaints are varied -- ranging from difficulty in settling an auto liability claim to protests over spiraling health insurance premiums. In seeking to

resolve these problems, the western office works closely with insurance specialists in the department's consumer services division in Raleigh.

Some inquiries, however, can be settled by a quick telephone call to the insurance company involved, often saving residents days and even weeks of trying to reach the proper authorities.

The office also acts as a liaison between municipal and county governments and the Department of Insurance, providing guidance and obtaining information to help resolve specific insurance problems.

Some 20 department field employees based in the western region also make use of office facilities. These personnel represent several divisions: Investigations, Manufactured Housing, Special Services, Engineering, State Property, and Fire and Rescue Services. Also, divisions often hold conferences in the regional office, both for their own personnel and for meetings with other groups.

The regional office also provides examination facilities for bail bondsman candidates, prospective agents for life, accident and health insurance, and for property and casualty agents.

The major work of this office is in consumer problems and resolving them as rapidly and fairly as possible. The office is directed by a special assistant to the Commissioner, assisted by an office manager.

Eastern Regional Office

Having opened in June 1987 in New Bern, the eastern office makes it easier for the citizens of Eastern North Carolina to receive the help and information they need.

The staff is trained to answer questions in all areas of departmental activity: insurance agent licensing, building code enforcement, bail bondsmen and runners, premium finance companies, motor clubs, fire and rescue personnel, the Seniors' Health Insurance Information Program -- to name just a few.

The office assists agents in locating hard-to-find insurance and answers questions on rules, regulations, and interpretations of policies and insurance law.

The staff assists consumers who have complaints and difficulties with bail bondsmen, insurance agents, and insurance companies. This assistance may involve forwarding the complaint to the proper investigator and acting on the consumer's behalf and contacting the agent or company when necessary.

The eastern office has had a continuing increase in the number of cases handled. Consumers learn of the office by reading about it, from friends and neighbors, from other agencies such as state and federal offices, the Better Business Bureau, and through appearances by office personnel.

Overseeing the office is a special assistant whose activities include traveling to all counties in the region, making presentations, and visiting local officials as well as entities regulated by the department.

The special assistant travels to each of the 29 counties in the eastern region on a regular basis. He has met with senior citizen groups, civic organizations, local

governments, fire departments, rescue squads, hospital/medical organizations, insurance organizations, bailbond organizations, and the media.

The office manager is responsible for the day-to-day operations of the office as well as answering questions from anyone calling or walking in the office.

The eastern office is used by Department of Insurance field staffs in Fire and Rescue, the Investigations Division, the Special Services Division, the Seniors' Health Insurance Information Program, and the Building Codes Division.

The office is equipped to give and has administered tests for bail bondsmen and insurance agents. Conferences for investigations, the SHIIP program, and Fire and Rescue Services have been held in the office. Presentations by Raleigh staff to groups and/or organizations have also been held in the eastern office.

Seniors' Health Insurance Information Program

During the fall of 1986 and in direct response to growing concern about health insurance for older North Carolinians, Insurance Commissioner Jim Long established the Seniors' Health Insurance Information Program -- or SHIIP.

With over 70 insurance companies specializing in selling Medicare supplement, long-term care, and other medical insurance products to our rapidly growing aging population and with the ever changing and confusing Medicare system, older adults are often left vulnerable to unfair practices.

Commissioner Jim Long assigned staff to research the problem, design the training program, and begin the training process.

The SHIIP program is designed to train older adult volunteers to help other older adults through the maze of Medicare regulations, Medicare supplement insurance, long-term care insurance and claims procedures. The volunteers go through an extensive training course designed to teach them Medicare and private insurance benefits and options, as well as claims procedures and counseling/advocacy skills.

The volunteers are then available for free, one-on-one counseling to help a person understand Medicare, to read and understand private insurance policies, and even to help process claims.

Since September 1986, the SHIIP program has trained over 4000 people in 82 counties. About a thousand trainees are actively counseling others in their community. In each county, SHIIP is coordinated through an existing human service agency such as a Council on Aging, senior center, or agricultural extension office. These focal points provide continuity, a local point of access and a model for inter-agency cooperation.

In just the last two years, over 5000 older adults across North Carolina have been helped directly by SHIIP volunteers and staff. In addition to the counseling, staff and volunteers have conducted hundreds of presentations and been a resource for countywide, statewide and regionwide conferences and workshops, in turn reaching an additional 200,000 people.

SHIIP staff have prepared learning materials and numerous educational brochures which have been distributed across the state to thousands of people.

In addition, SHIIP staff work closely with Medicare, insurance companies and providers to assure older consumers a fair and equitable health insurance environment.

Among other achievements, the SHIIP program has:

- Expanded rapidly and effectively to 82 North Carolina counties.
- Linked effectively with retired state employee groups, e.g. participation in the "Prepare" program.
- Developed special buyers' guides for Medicare supplement and long-term care insurance.
- Gained a reputation as knowledgeable, friendly, and effective advocates.
- Established a statewide toll-free telephone line to handle older adults' insurance questions.

The Seniors' Health Insurance Information Program is pleased with the tremendous support from the Department of Insurance and other state agencies and very proud of its volunteers across the state.

Medical Database Commission

The N.C. Medical Database Commission, created in 1985, has a legislative mandate to create a statewide health care information database and to serve as a clearinghouse for the information collected.

The commission is to be a public source of data useful for analyzing health policy issues and for making decisions about the planning, management, delivery, and purchase of health care services.

The commission will publish health data reports which identify patterns and trends in the utilization of hospital inpatient services and the associated charges. These reports will enable individuals to have a better understanding of how hospital inpatient services are delivered and financed here in North Carolina.

The commission also has the capability to produce special data to meet specific health data needs of individuals and organizations. The information services provided can be used by other state government agencies, health care researchers, employers, insurers, providers, and consumers.

During 1987-88, the commission designed and implemented a statewide hospital discharge database. On January 1, 1988, 156 non-federal, acute care, rehabilitation, and psychiatric hospitals in North Carolina began submitting data to the commission for every patient discharged.

The Commission's activities during the past two years can be categorized as developmental and operational.

Developmental Activities

During 1987, the Medical Database Commission's activities related to developing the hospital discharge database. The commission adopted administrative rules

governing submission of inpatient discharge data as well as procedures for disseminating data.

The commission signed a three-year contract with EDS Federal Corporation to design, develop, and operate an extensive data processing and reporting system.

A number of activities have related to ensuring the collection of accurate information which would result in the most comprehensive and useful hospital discharge database possible.

The commission developed and implemented a uniform payer identification coding scheme to be used by all hospitals. In addition, the commission was successful in getting its enabling legislation amended to ensure that all hospitals continued to comply with all federal regulations on patient confidentiality when submitting the required data to the commission.

Operational Activities

Inpatient discharge data collected for the first two quarters of 1988 has been processed and each hospital has been provided an opportunity to verify the accuracy of the data.

The statewide database includes information about all patients and all payers. The data collected for each patient discharge covers such areas as patient age, sex, and zip code; number of days the patient was hospitalized; patient's diagnoses and the procedures performed; the charges associated with the patient stay; identification of the hospital and physician responsible for the patient's care; and the expected source of payment.

To facilitate data collection, the commission has provided significant technical assistance to hospitals. Nine workshops have been held across the state to explain the reporting requirements. A comprehensive hospital data submission manual has been prepared and distributed to each hospital. The commission has issued four bi-monthly newsletters to hospitals to convey policy and other programmatic information.

The commission spent most of 1988 designing a complex, automated system to accurately process the patient discharge records submitted by hospitals. The computerized system developed and operated by EDS routinely generates management reports to aid the commission: in determining hospital compliance with state laws on reporting; in assessing the accuracy and completeness of the data submitted; and in monitoring the data processing contractor's performance.

In accordance with the clearinghouse functions, the commission has prepared eight reports which describe utilization and charges within the state, within each of the hundred counties, and within each of the 156 reporting hospitals. The reports that the commission will publish routinely include:

- **Statewide DRG (Diagnostic Related Group) Report**
- **Distribution of Hospital Utilization by DRG**
- **Twenty DRGs with Highest Total Charges**

- Inpatient Utilization Rates and Charges by County of Patient Residence with Subtotals for Major Diagnostic Categories
- Payer Statistics by Group of Hospitals
- Twenty Most Prevalent Surgical Procedures by County of Residence
- Twenty Most Prevalent Surgical Procedures by Hospital
- Hospital Utilization by Patient Origin

Hospital compliance with the state law for reporting has been good during this first year, with all 156 hospitals having reported data.

A reference book describing the hospital discharge database in more detail has been prepared and over a hundred copies of the document have been distributed to various business coalitions, health care researchers and other interested parties.

The commission held a public hearing in June 1988 to solicit comments about health data needs in North Carolina. As a result of the comments received, the commission decided to establish a hospital financial database.

The commission has met monthly during the past two years to oversee data collection and processing activities. To aid the commission in carrying out its responsibilities, there are two standing committees -- a data committee and a report committee. Within the past few months, these committees have begun to meet monthly.

Standard reports which describe hospital inpatient utilization charges will be available in March 1989. The North Carolina Medical Database Commission is looking forward to publishing the first data reports in the first half of 1989.

Market Assistance Program

Begun in 1986 as a result of an availability crisis in liability coverages, the market assistance program (MAP) helps individuals and businesses find needed property and casualty insurance.

During the 1987-88 biennium, the MAP program continued its remarkable record of success in locating these coverages. Most inquiries can be satisfied by a telephone call to the department's MAP coordinator.

Since the program's inception in April 1986, there have been 2,963 inquiries. Of that number, only four could not be satisfied in existing markets.

The MAP program has found insurance markets for: ocean piers, fertilizer distributors, housing authorities, special events, bar operators, group homes, cardboard box manufacturers, mobile home park operators, day care operators, ministers, counties, house movers, feed mills, water utilities, municipalities, paper balers, contractors and scrap metal dealers.

The department's MAP program is considered the most successful of its kind in the nation.

Office of Minority Assistance

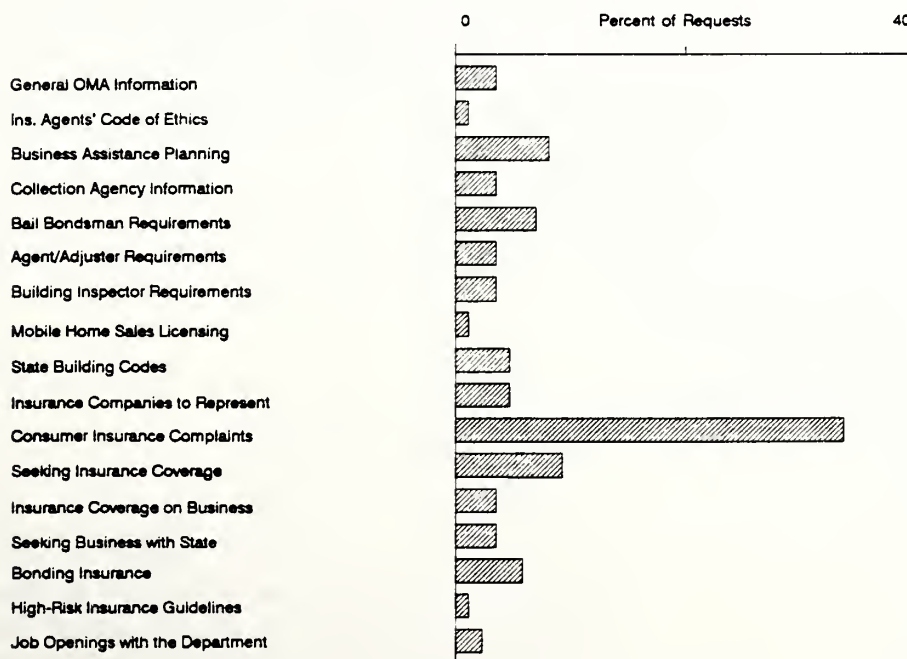
While department services and staff are increasingly available to all the people of North Carolina, Commissioner Long sensed a need to take a more positive leadership role in offering services to minority citizens who, for a variety of reasons, have not been able to take maximum advantage of those services.

In January 1986, believing strongly that no individual or enterprise should be limited in the opportunity to grow and prosper, Commissioner Long directed that an Office of Minority Assistance (OMA) be set up within the department.

The primary function of OMA is to provide assistance to minorities, women, and economically disadvantaged persons, professionals and businesses. OMA serves as a clearinghouse for technical assistance and information about opportunities in areas regulated by the department or with the department itself. (See graph.)

To make these special groups -- as well as the general public -- aware of the department's efforts, 500 copies of the OMA brochure have been distributed to some 30 churches, civic organizations, local governments, private businesses, and legislators.

OMA Requests for Assistance: 1987-88



Legal Division

The department's legal division has been involved in a number of significant new initiatives during the last two years.

In the 1987 and 1988 sessions of the General Assembly, the division was instrumental in getting passed the department's legislative package, affecting a broad cross-section of North Carolinians.

Legislation was enacted in the following areas: agent licensing; risk retention and purchasing groups; premium taxes; unfair trade practices; Medicare supplement advertising; credit insurance rates; automobile liability insurance; medical malpractice insurance; third party administrators; long-term care insurance; preferred provider organizations; property insurance; health maintenance organizations; insurance company solvency; and local government risk pools.

The division has participated in implementing comprehensive and sweeping changes in the auto insurance classification system and Safe Driver Incentive Plan. These changes were mandated by landmark legislation passed by the 1987 General Assembly with the assistance of the division.

After a major revision of the insurance premium tax laws, the division assisted in setting up a procedure for the imposition of premium taxes.

The division also provided assistance to interim legislative study committees taking a look at automobile insurance, indigent health care, mental health, leaking underground storage tanks, state-owned property, AIDS, the role of the Attorney General's staff, and birth-related neurological defects.

During the biennium's three auto insurance rate hearings, the division provided assistance and expert witnesses. In these cases, the Commissioner ordered either rates that were substantially lower than those requested or rates that were lower than those in effect at the time of the request, thereby saving consumers millions of dollars.

Fire and Rescue Services

Beginning in January 1985, Insurance Commissioner Jim Long -- realizing the importance of this division to the safety and welfare of our citizens -- has been able to obtain legislative support for staff expansion and increased services. Each area of service has undergone growth and compiled a record of achievement.

Firemen's Relief Fund

The process for collecting the Firemen's Relief Fund tax has been modified. To attempt to eliminate slow reporting by companies and incorrect fire district ID numbers, the department has developed a software application for use by all insurance companies in reporting the tax.

1987 Firemen's Relief Fund

Receipts:	\$1,732,590	Disbursements:	\$1,732,590
899 Qualified Accounts			\$1,504,611
329 Disqualified Accounts/State Firemen's Association			\$110,608
3% Administrative Cost/State Firemen's Association			\$51,978
2% Administrative Cost/Department of Insurance			\$34,488
Cover Blanket Bond/State Firemen's Association			\$30,903

Rescue Relief Fund

Legislation was passed in 1987 to create a relief fund for rescue squad workers with funding derived from a five-cent increase in the price of automobile inspection stickers.

1988 Rescue Relief Fund

Receipts:	\$263,462		
Disbursements:	2% DOI	3% NCARS*	95% Relief Fund/NCARS*
1st Qtr	\$1,081	\$1,622	\$51,382
2nd Qtr	\$1,294	\$1,942	\$61,496
3rd Qtr	\$1,424	\$2,136	\$67,644
4th Qtr	\$1,468	\$2,203	\$69,765

* N.C. Association of Rescue Squads

Fire/Rescue Grant Administration

In January 1988, this division began receiving applications for the Rural Volunteer Fire Department Fund. This fund was established by the 1987 General Assembly to provide matching money dollar-for-dollar to rural volunteer fire departments serving a population of 6,000 or less and certified by the Department of Insurance. This fund generates over a million dollars.

A total of 361 applications were received and evaluated to determine the neediest fire departments across North Carolina. There were 177 departments that qualified to receive grant money this year.

During the 1988 session of the General Assembly, the act was amended to allow small municipalities to apply for grant money. These small municipalities must serve a population of 6,000 or less.

That session also created the Volunteer Rescue Squad Fund -- a program to provide rescue squads in North Carolina with matching dollar-for-dollar grants up to \$15,000 per squad.

Applications for this fund will be mailed in July 1989 and announcements of recipients will be made December 15, 1989. This fund is also expected to generate over a million dollars.

Field Services

The Field Services staff continues to produce and update the instructional programs for fire departments, rescue squads, the North Carolina Fire Commission

and its instructors. This ongoing process involves participation with local, state and federal agencies. The information gained from the interaction with these groups will be useful in researching and developing future programs for the N.C. Fire Commission, N.C. Fire Services and this division.

With the N.C. Firefighter Certification and Instructor Programs up and running and other certification programs to be realized soon, this division, the Fire Commission and the Fire Services Training Section of the Department of Community Colleges have established general agency direction regarding state-delivered training or training coordinated and/or managed by state agencies.

Fire Prevention and Education

Fire prevention and education activities have been expanded greatly during recent years. Two primary areas of activity have involved the proposed North Carolina Fire Code and implementation of the "Learn Not To Burn" curriculum in the elementary schools.

In 1985, Commissioner Long established the North Carolina Fire Code Advisory Committee to address the needs of the state and make recommendations relative to a fire code.

The responsibilities of this division have grown with the development of criteria for fire inspector certification and through expanded training and testing of inspectors to prepare them for certification by the N.C. Code Officials Qualifications Board.

One of the most significant programs in fire education has been implementation of the "Learn Not To Burn" curriculum in the fourth-grade classrooms of the state. This project is conducted jointly by the Fire and Rescue Services Division, the Department of Public Education, and the North Carolina Jaycee Burn Center. In the last two years, over half of our fourth-grade classrooms have been exposed to the curriculum, which teaches North Carolina's young people how to prevent the destruction by fire of lives and property.

Governmental Services Section

This section has been the certification agency for qualifying fire departments and their members for several benefit programs.

Since 1985, fire departments must be inspected by this section in order to qualify for the In Line of Duty Death Benefit, the Firemen's Pension Fund, and the Firemen's Relief Fund. The Commissioner of Insurance is designated to set the standards and qualifications for the initial certification of all fire departments. North Carolina has experienced a growth rate of around 30-40 fire departments for each of the past ten years.

In October 1987, this section was given the duty of re-inspecting the more than one thousand Class 9 or Split/Class 9 fire departments in North Carolina.

The first-year phase of this project has been completed. The results of these re-inspections have been reported to the N.C. Fire Rate Bureau and are to be used

by them in filing future rates for fire insurance costs. We plan to re-inspect these fire departments on a two to three-year cycle in order to maintain a current picture of the quality of fire protection in North Carolina. The information is also being used in the qualifying process for two state grant programs -- Rural Fire Department Grants and Rescue Squad Grants.

This section continues to assist local governments in fire district mapping, in setting up tax fire districts, and with information on benefit programs. It also acts as an information resource for county commissioners, county attorneys, city council members, and city and county managers on all matters concerning fire protection.

North Carolina Fire Commission

The fire service of our nation is continuing to change due to improvements in technology, implementation of stricter standards, and the growing concern over liability. The North Carolina Fire Commission strives to assist our state's fire service in keeping abreast of these changes.

The commission has laid the groundwork to provide for the future of our fire service--by establishing voluntary standards that are achievable and realistic, by devising a reporting system that tells us where we need to go by showing us where we are, and by participating in national, as well as state, programs for training and education.

Firefighter Certification

In July 1987 the Fire Commission's firefighter certification standard came into effect. Since then, numerous firefighters from across the state have enrolled in the program, with many certified at each level. Many fire departments have adopted the standard into their training program and several have received approval to become a delivery agency.

Three assessment centers have been sponsored across the state to measure firefighters' progress toward the standard. The assessment centers have shown that the training being delivered across North Carolina is compatible with the objectives of the standard.

Instructor Certification

The Fire Commission's Instructor Certification Standard came into effect July 1, 1988. It replaces the Department of Community Colleges' certification program and becomes the only fire service instructor certification program in the state. The approval and implementation of the program followed a year of committee and public meetings.

This program will allow for local department instructors to receive teaching credit. These additional training officers will be available for classes statewide and

will be able to go beyond training level 2 into levels 3 and 4 -- an opportunity that existed before only through the N.C. Society of Fire Service Instructors.

Certification Board

The Firefighter/Instructor Certification Board has met five times to rule on issues facing the certification programs. Its duties include overseeing the firefighter and instructor certification programs.

Fire/Arson Investigator Certification

During the July 1987 meeting of the Fire Commission, the Fire/Arson Investigator Certification standard was approved. The program measures investigator experience and education in the fire service field and certifies applicants based on achievements, experience and/or successful completion of an examination.

N.C. Fire Incident Reporting System

This system has grown from hope to a reality with the design of mainframe and personal computer software, the purchase of computers, and installation of those computers and software in 46 counties.

N. C. Fire Incident Reporting System

Following is a sample of data collected during the first quarter of 1988 from fire departments in North Carolina:

Structure fire	727	Rescue	465
Fire outside w/value	37	EMS only	369
Vehicle fire	210	Hazardous condition	255
Trees, brush, grass	920	Service Call	117
Refuse fire/no value	136	Good intent call	163
Explosion/no fire	2	False/malicious	38
Outside spill leak w/fire	1	False/malfunction	111
Fire/explosion	23	False/unintentional	83
Overpressure/rupture	6	Other situation found	525

National Fire Academy Seminars

In 1987-88, North Carolina was involved in two weekend workshops at the National Fire Academy in Emmitsburg, Maryland. A total of 525 firefighters from North Carolina attended. North and South Carolina will combine for a weekend in the fall of 1989.

Proposed Certification Programs

The fire commission is taking a look at establishing standards and programs for certifying a number of vital fire service personnel: fire education officers, fire service officers, driver operators, and fire marshals.

Company Services

The Company Services Group consists of the Financial Evaluation Division, the Actuarial Services Division, and the Information Systems Division.

The major responsibilities of the Financial Evaluation Division are: to monitor the solvency of all insurance companies under the supervision of the Commissioner of Insurance; the review and recommendation for admission of out-of-state, domestic, and surplus lines companies seeking to transact business in the state; the examination and audit of domestic and foreign insurance organizations licensed in North Carolina; and to assure the financial solvency and employee stability of self-insured workers' compensation groups in the state.

The Actuarial Services Division assists in the review of rate, form, and statistical filings. In addition, this division provides actuarial studies in financial evaluation work and has been involved in several special projects during the last two years.

The Information Systems Division has the responsibility for all departmental data processing, word processing, office automation, data communications, and voice communications. Field personnel are now able to receive and analyze information directly from insurance companies' mainframe computers.

Financial Evaluation Division

The division is comprised of the company admissions section, financial compliance section, field audit section and the self-insured workers' compensation unit.

Company Admissions Section

There continued to be strong interest during 1987 and 1988 from insurance companies seeking authority to transact business in North Carolina. A total of 193 new applications for admission were received during the two-year period.

A total of 79 insurance entities received initial certificates of authority from January 1987 through November 1988 -- including 39 out-of-state fire and/or casualty insurance companies, two North Carolina fire and/or casualty insurance companies, 33 out-of-state life insurance companies, two out-of-state title insurance companies, two North Carolina health maintenance organizations, and one North Carolina reciprocal insurance exchange.

Due to the large number of applications to be processed and additional responsibilities placed upon the company admissions section, a new position of company admissions analyst was added during the spring of 1987.

The responsibilities of the new position include assisting in the review of applicant insurance companies, assisting in the review of filings by fire and casualty insurance companies for surplus lines eligibility, and conducting the primary review of filings by insurance entities seeking registration under the Risk Retention Act.

Effective July 31, 1985, this section became responsible for maintaining a list of fire and casualty insurance companies eligible for the placement of surplus lines business. A total of 101 filings for such eligibility were reviewed from January 1987 through November 1988. Seventy-five new companies were added to the list and 15 companies were deleted from the list during the above period.

The Federal Risk Retention Act was enacted by Congress in late 1986 and permitted risk retention groups and purchasing groups to provide certain types of liability insurance coverages to their members if the group was properly licensed in at least one state.

The act required only minimal financial information to be filed with each state in which the group wanted to do business. The department has required as much information as possible in order to evaluate the merits of these filings and protect North Carolina citizens.

This section received its first filing in this category in March 1987. Through November 1988, there have been 249 filings from purchasing groups and 44 filings from risk retention groups. Eighty-seven purchasing groups and 16 risk retention groups have been registered to transact business during that time.

Financial Compliance Section

The primary and overriding responsibility of the financial compliance section is to monitor solvency of all insurance organizations licensed and/or supervised by the Department of Insurance. The section has the following responsibilities:

Collect and verify licenses, taxes and fees: Includes the review of state premium tax returns for compliance with the state premium tax laws and the collection and processing of all state premium tax and license fees.

Premium Tax Collections

- In North Carolina, total direct premiums written approximated \$5.8 billion for 1986 and \$6.8 billion for 1987
 - Premium taxes and other fees collected in 1986 exceeded \$135 million and in 1987 exceeded \$185 million
 - In 1988, premium volume and premium tax collections are expected to exceed earlier levels
-

Process/review company licenses, corporate changes and corporate filings: Includes the review of renewal license applications of insurance organizations and the review, processing and/or approval of corporate changes of insurance organizations, including acquisitions, mergers, dissolutions, reinsurance arrangements, charter changes, by-law changes, holding company filings, and requests for sale of securities.

Monitor financial condition of insurance organizations: Involves the financial monitoring of each insurance organization which is accomplished by reviewing the operations and financial condition of each organization through financial analyses of annual and interim financial statements and other financial data. The primary responsibility of the section is to determine the financial health of each insurance organization and to take necessary and appropriate steps to safeguard the interests of the citizens of this state. Currently, the section is computerizing its financial monitoring procedures.

Maintain security deposits from insurance organizations: Includes the collection of and maintenance of all security deposits made by insurance organizations for the protection of North Carolina policyholders. The actual funds are maintained by United Carolina Bank under a safekeeping arrangement and total approximately \$200 million at present.

Performance Indicators: 1987-1988

Insurance organizations currently licensed/supervised	1,400
Financial statements analyzed	4,600
Statutory audit reports reviewed	1,100
Licenses, taxes and fees reviewed	\$286,000,000
Certificate of authority requests for sale of securities	110
Securities on deposit for policyholder protection	\$223,000,000
Securities on deposit in workers comp security fund	\$14,000,000
Deposits obtained as result of financial inquiries	\$10,000,000
Certificates of good standing, deposit, etc. processed	1,800

- Financial monitoring of local government risk pools was placed under supervision of this section effective July 1986.
- Financial monitoring of Federal Risk Retention Act companies was placed under supervision of this section effective September 1986.
- Financial monitoring of third party administrators was placed under supervision of this section during 1988.
- The financial monitoring aspect of surplus lines companies was placed under supervision of this section during 1988.

Financial analyses and other forms of monitoring are in the process of being computerized. The first phase -- designed to identify troubled companies soon after the filing of annual financial statements -- has been completed. The second phase -- designed to facilitate the detailed analyses of the balance sheet, income statement and certain other performance factors, trends, comparisons and cross-section studies -- is in the development stage and expected to be completed during 1989.

Field Audit Section

The primary function of this section is carried out at the home office of the insurance organizations under practices and procedures developed by the National Association of Insurance Commissioners and this section.

From July 1986 through November 1988, the field audit staff completed 53 reports. Each report covers a three-year period.

The section began incorporating computer applications in the spring of 1988. The examination report -- the end product of the examination function -- has been prepared by computer for the past two years on the department's mainframe.

Self-Insured Workers' Compensation Unit

In July 1985, the department assumed responsibility for the self-insured workers' compensation unit, whose purpose is to assure the financial solvency and stability of employers, industries and groups seeking to self-insure their workers' compensation risk in lieu of obtaining commercial coverage.

Annually, this section requests and receives an up-to-date listing from administrators of workers' compensation programs. These groups provide coverage for several thousand employees in the state.

In 1988, the department received \$2,637,659 in payroll taxes--in 1987, \$2,284,573. The invoices for these premium taxes are mailed in January after receipt of the individual payrolls in December. Premiums collected are deposited into the general fund.

During the regular session of the 1986 General Assembly, the North Carolina Self-Insurance Guaranty Association was established. This is a non-profit, unincorporated legal entity which provides a mechanism for the payment of covered claims under the self-insurance program. The department will make an additional assessment of each individual member until the level of \$1 million is reached. The current balance of the fund is \$789,255.

In 1988, the fund disbursed \$102,222 which represented unpaid claims on prior insolvencies. The department issued a like amount of tax credits to be applied to 1988 payroll taxes.

Actuarial Services Division

Much of the work of this division is involved with assisting the Fire and Casualty, Financial Evaluation, and Life, Accident and Health Divisions with statistical research and calculations.

Financial Evaluation Work

This division also works closely with various sections of the financial compliance section. The company admissions section uses actuarial analyses of financial projections and proposed rates of companies applying for admission or registration in North Carolina.

Risk retention groups have received particular attention. Although state regulation is limited in this area, the division regularly requests actuarial justification for applicant groups' proposed rates and has tried to ensure that such rates are neither inadequate, excessive, nor unfairly discriminatory. The division has been successful in persuading some undercapitalized groups to withdraw their applications for registration.

The division has also participated in the design and implementation of the reserving aspects of the department's financial evaluation system. As part of this program, loss reserve information is requested from companies doing business in North Carolina. A database will be constructed to generate analyses of each company's loss reserve strength.

Fire and Casualty Work

Actuarial Services works closely with the Fire and Casualty Division in reviewing rate filings, form filings, and statistical filings of major significance. During the last two years, three private passenger automobile filings and one workers' compensation filing made by the North Carolina Rate Bureau have received intense departmental scrutiny. In all four cases, hearings were held in which the Actuarial Division actively participated.

The three private passenger automobile filings were made in November 1986, July 1987, and July 1988. In all three cases, following a hearing at which both the rate bureau and the department provided extensive testimony, the Commissioner issued an order lowering the initial requests for rate changes.

The first request was lowered from 12.1% to 1%, the second from 3.5% to -3.9%, and the third from 6.4% to -1.4%. These three reductions represent an approximate savings to consumers of \$270 million.

Although these reductions reflect the Commissioner's selection of trends, loss development factors, and expense provisions other than those filed by the bureau,

the major reason for the rate reductions has been the selection of lower profit provisions.

In all three instances, the Commissioner reduced the filed 5% profit provision to reflect the investment income earned by the industry. All three orders have been appealed by the rate bureau, which implemented rates other than those ordered by the Commissioner in the last two cases. In all three cases the Actuarial Division was a major participant, undertaking detailed analyses, providing expert testimony, and coordinating the participation of other departmental consultants.

The workers' compensation filing of September 1, 1987 followed a similar pattern. The original request was for a 16.8% increase but the Commissioner's order reduced this to 4.4%, a savings of \$58 million. This order was appealed and the rate bureau implemented a rate level change of 15.9%. Again, the Actuarial Division undertook a detailed analysis and provided expert testimony.

Reductions were also secured in the following physicians' and surgeons' professional liability filings: Medical Mutual filings in 1987 and 1988 were reduced from 27% and 14.9% to 15.9% and 9.5% respectively. The 1987 St. Paul filing was lowered from 32.9% to 19.8 percent.

There were two other important filings in which the division was instrumental in securing a reduction in the originally requested increase. The rate bureau farm-owners filing of November 1987 was lowered from 11.9% to 6%. A requested increase of 61.8% for zone rated risks in the North Carolina Reinsurance Facility was lowered to 30 percent.

Life, Accident and Health Work

In life, accident and health matters, Actuarial Services works in a consulting capacity with the following divisions: Life, Accident and Health, Legal, Financial Evaluation, Consumer, and Administration.

The work with these divisions involves: reviewing accident and health rate revisions, policy forms, statistical filings of major significance, and assistance in interpreting statutes addressing actuarial issues.

In reviewing a large number of rate revisions, the division has saved accident and health policyholders approximately \$2.8 million in 1987 and approximately \$2.6 million in 1988. Since such reviews began, they have produced savings of approximately \$8 million. The division also reviews actuarial aspects of HMO applications and rate filings.

Recently, the division collected statistical data supporting a legislative reduction in the single premium rate for credit insurance. The savings to the consumer by reducing the rate will be approximately \$28 million in 1988 and \$30 million in 1989.

The division is currently gathering data for statistical studies involving the adequacy of reserves for HMOs and conducting a loss ratio study involving Medicare supplement policies.

Special Studies

During the last two years, the division has spent a large amount of time on special studies. The most significant of these was a medical malpractice closed claims study which examined various characteristics of North Carolina claims closed in the years 1983-86. After many months of data compilation, verification and analysis, a report was issued in October 1988. A survey of workers' compensation ratemaking practices in other states was also conducted and a summary of the findings was issued in February 1988.

Information Systems Division

This division is the department's data processing planning and implementation office with responsibility for: data processing, word processing, office automation, data communications, and voice communications.

Its day-to-day responsibilities include managing two distributed processors, consulting and planning for data processing, approval of data processing procurements and maintenance contracts, personal computer consultation and training, and a five-year data processing plan.

The department currently owns two superminicomputers which provide office automation services to 200 employees and networking capability to field personnel, other state agencies and the SIPS mainframe computer.

Although the department's central computers have been expanded to meet the needs of a growing staff, the main focus of information system activities has been the distribution of processor power out to individual employees and field personnel. Personal computers have been the primary means by which this distribution has been accomplished.

The field audit section now uses personal computers regularly in its on-site audits of insurance companies. Replacing the old-style spreadsheets and calculators, the PCs allow auditors to get and analyze information directly from the insurance companies' own mainframe computers. These personal computers are linked to the department's central computers.

The financial compliance section uses electronic spreadsheets extensively in reviewing insurance companies' annual financial statements. For the past two years, the department has required insurance companies to submit certain key financial data in machine-readable format for faster analysis.

In the future, annual statements will be submitted on computer diskettes for direct input into personal computers with pre-programmed analysis software, speeding the process even more.

The department's two new regional offices have personal computers to provide a high-speed link to the central office automation system in Raleigh. This biennium also saw the implementation of a program to cut maintenance contract costs in data processing equipment.

The development of the department's integrated insurance system continues. Eventually this system will link the various data the department maintains on insurance companies in an easy-to-use menu driven system.

Technical Services

Created in September 1988, the Technical Services Group is comprised of the Fire and Casualty and Life, Accident and Health Divisions and the market conduct section.

The Fire and Casualty Division's primary responsibility is the review of rate, rule and policy form filings made by insurance companies, statutory bureaus and licensed rating organizations.

The primary responsibility of the Life, Accident and Health Division is the review of rate, rule and policy form filings made by insurance companies.

The market conduct section conducts field examinations of the market practices of domestic and foreign insurers and their representatives.

While each of these functions has existed within the department for many years, the Technical Services Group was formed to increase their effectiveness and improve their communication and coordination with the actuarial staff and financial analysis examiners.

In 1988, the Fire and Casualty Division reorganized its rates and forms files, resulting in one of the most efficient filing systems of any insurance department in the country.

Also during 1988, the development of a computerized rates and forms tracking system was begun. Once operational in 1989, both Fire and Casualty and Life, Accident and Health will begin developing a data base of rates and forms approved for licensed insurance companies in North Carolina.

The market conduct section has recently completed a review of its examination procedures and has developed standardized documents for examination planning, review, summary and expense procedures.

Fire and Casualty Division

This division reviews rate, rule and policy form filings made by insurance companies, licensed rating organizations, and statutory bureaus -- i.e. the N.C. Rate Bureau. Other responsibilities include the licensing of rating organizations, advisory organizations and joint underwriting associations.

General statutes permit insurance coverages to be placed with surplus lines companies -- i.e. unlicensed in N.C. -- so long as there is compliance with applicable statutes and regulations. Surplus lines companies are monitored to ensure that the appropriate premium taxes are collected.

In 1987-1988, surplus lines premium taxes generated several million dollars for the State of North Carolina:

Premium Taxes: 1987-88

Year	No. of Policies	Premium	Tax Generated
1987	16,817	\$70,566,898	\$3,528,344
1988	8,842	\$36,717,126	\$1,835,855

Rate Deviations

General Statutes allow companies to file rate deviations, or discounts, on essential coverages -- i.e. private passenger automobile, homeowners, dwelling fire-- under the jurisdiction of the N. C. Rate Bureau. In 1987 and 1988, the following deviations were filed:

New Rate Deviations: 1987-88

Year	Homeowners*	Dwelling	Auto	Workers' Comp
1987	170	13	19	9
1988	93	6	29	3

*Companies had to refile all deviations.

Because some risks cannot be written at standard rates, general statutes permit companies to charge a higher-than-standard rate on individual policies with the written consent of the policyholder and, in some cases, the approval of the Commissioner.

From January 1987 through November 1988, this division received:

Higher-Than-Standard Rate Filings: 1987-1988

Year	Private Auto	Individual Risk	All Other
1987	421,988	75	2,925
1988 (Jan/Nov)	447,268	50	2,748

Because this division's primary responsibility is the review of forms, rules and rates, filings must be carefully analyzed. During 1987 and 1988, a total of 10,770 filings were reviewed. These included:

Forms, Rules and Rates Reviewed: 1987-88

Rate Bureau/ Year	All Other Co.'s Reinsurance Facility	Organizations	Total
1987	37	5,754	5,791
1988	87	4,892	4,979

Effective January 1, 1989, combined rate and form filings will no longer be permitted. Because companies/bureaus will be required to submit separate form and rate filings, the division anticipates a minimum increase of 25% in the number of filings.

Issues and Achievements

Some of the significant issues and achievements of 1987-1988 include:

- **Windstorm and Hail Coverage:** In June 1987, the General Assembly enacted legislation permitting the N.C. Insurance Underwriting Association (Beach Plan) to offer separate policies for windstorm and hail insurance. This program is used in conjunction with package policies (both business and personal) which are written by standard companies but exclude windstorm and hail coverage.

- **Credit Property Insurance:** Effective January 1, 1988, insurance companies had to reduce the maximum rate which could be charged for this coverage. Also effective January 1, 1989, the policy itself must be written in a new "readable" format.
- **Over Age 55 Auto Discounts:** In 1987, companies writing auto coverage in North Carolina were permitted to begin offering premium discounts to drivers age 55 and over. By the end of 1988, 15 companies -- representing half the auto insurance written in the state -- had implemented such a program.
- **Crop-Hail Insurance:** In 1987, expiration dates were eliminated for wind coverage on tobacco crops. Previously, there had been no available coverage for wind damage to tobacco after September 1 of each year. With implementation of this endorsement, coverage is now available.
- **Title Insurance:** The Fire and Casualty Division, in conjunction with title insurance companies, edited and published a brochure explaining what title insurance is and what it protects.
- **Over-Quota Tobacco:** Prior to 1988, there was no insurance coverage available for a farmer's over-quota tobacco which cannot be sold on the current market and must be stored until the next year's market. This division worked with several companies to provide this much needed protection. Coverage for over-quota tobacco became effective December 2, 1988.
- **Automobile Rate Filings:** In 1987-1988, Commissioner Long called for public hearings on the N.C. Rate Bureau's requests for increased automobile rates. In each case, it was determined that the requests were excessive and Commissioner Long ordered rates to be decreased.

In August 1987, Commissioner Long notified all licensed property and casualty insurance companies that policy forms and rates for Risk Retention Act purchasing groups must be filed with the Commissioner prior to their becoming effective. By taking this stand, Commissioner Long ensured that these rates and forms would be subjected to the same careful review as all other rates and forms.

Also in 1987, the general statutes were amended to permit waiver of the 60-day waiting period for rate filings upon agreement between the Commissioner and the filer. This new authorization has permitted new programs to be offered sooner than they otherwise could have been -- in one instance, permitting a 45% decrease in professional liability rates two months earlier than would have previously been allowed.

Many activities have been undertaken by the division which will not only enable the division to operate more efficiently, but will permit more timely responses to inquiries from citizens, legislators, insurance companies, and other regulatory agencies. These activities include:

- **Regulations:** All regulations pertaining to the Fire and Casualty Division have been reviewed. Many outdated regulations have been repealed and, where necessary, new regulations enacted to reflect changing needs.

- **Manuals of Operations and Procedures:** During 1988, manuals were prepared documenting many of the procedures performed in this division. The manuals help ensure uniform and consistent handling of work and provide an effective training tool for new employees. Also, a 56-page "New Company Manual" has been completed and made available to all newly licensed companies and provides clear, concise information pertaining to the submission of rates, rules and forms filings.
- **Computer File Tracking System:** Although the new tracking system is not yet operational, it's expected to be complete in late 1989. The system will help to: monitor the status of filings, project work loads and staff needs, identify problem companies, and locate companies providing unusual or difficult-to-place coverages.

Life, Accident and Health Division

In 1987-1988, the Life, Accident and Health Division increased its staff from four analysts and three secretaries to six analysts and four secretaries. The expansion was prompted primarily by growth in the number and complexity of filings.

Reflecting that growth: in 1986 over 10,000 forms were received, in 1987 over 13,000, and through November 1988, over 16,000 forms were received by the division. (See graph.)

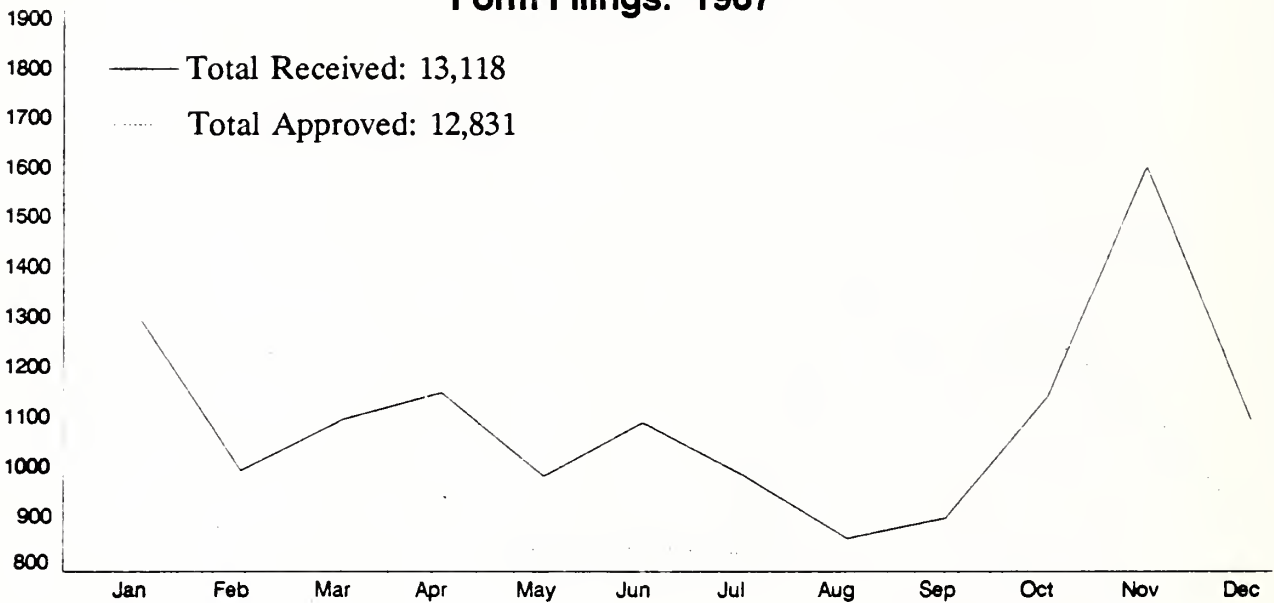
The forms reflect changes in life insurance, annuities, credit insurance, accident and health insurance contracts, applications, riders, and premium rate revisions for accident and health insurance.

During 1987-88, this division participated in four major surveys of approximately 900 licensed insurance companies in the state:

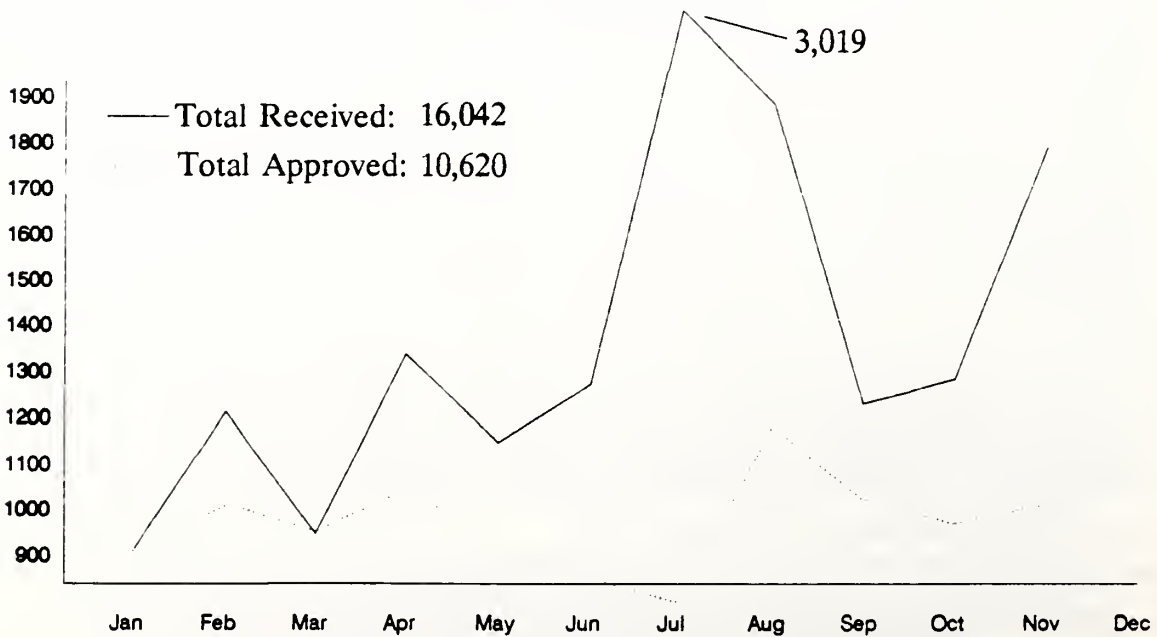
- The newly established N.C. Health Insurance Trust Commission surveyed licensed companies to identify products, levels of coverage, average premiums and availability of coverage for small group employers in this state. A buyer's guide has been developed and is now being provided to anyone interested in small business group coverage.
- A survey was conducted of licensed companies to determine availability of coverage and benefit levels for diabetes in North Carolina. A report of the findings is scheduled to be presented to the General Assembly in January 1989.
- Upon passage of the Medicare Catastrophic Coverage Act of 1988, this division surveyed licensed insurers to identify companies marketing Medicare supplement policies to help ensure that their products would comply with the the new provisions and coverages prescribed in the federal legislation. A preliminary report was furnished to the Secretary of Health and Human Services in November 1988.
- Upon passage by the General Assembly of changes to the credit insurance laws, this division surveyed some 64 companies to determine methodologies of computing premium rates for credit life and accident/disability insurance.

Life, Accident and Health

Form Filings: 1987



Form Filings: 1988



This survey has led to a standardized rate computation methodology for the credit insurance industry in North Carolina.

On the national level, this division -- along with Commissioner Long -- participated in three health insurance committees of the National Association of Insurance Commissioners.

Commissioner Long chaired the committee to rewrite the Medicare supplement buyers' guide. The committee's proposed guide was adopted by the NAIC at their December 1987 national meeting.

In addition, this division participated in the NAIC's life insurance advertising committee. The committee's proposed model legislation was adopted at the June 1988 national meeting.

This division has been instrumental in setting standards in several important policy areas for North Carolina's insurance industry:

- **AIDS:** Through the process of forms approval and benefits reviews, the division has established the policy that AIDS is to be treated as any other dread disease. Any benefits restriction or reduction must apply to all other forms of dread disease. Questions pertaining to AIDS are permitted on applications, but must be a part of the medical questions section of the application and cannot be segregated, highlighted, or added by rider or addendum. Questions concerning ARC--AIDS related complex--are permitted. However the term must be defined wherever used.
- In the review and any subsequent approval of pre-death life insurance benefit payments for the terminally ill, the division determined that the insured should be notified of possible tax consequences. Based on the written opinion of the Internal Revenue Service and the N.C. Department of Revenue, the division established a standard sticker notice to be affixed to these policy forms that would alert insureds to the possible tax consequence.

New Insurance Products: 1987-88

- **Long-term care coverage:** So far, 40 companies have approved one or more long-term policies with varying levels of coverage for use in this state.
- **Flexible premium/variable benefit life insurance policies** have been allowed to be sold within certain guidelines.
- **Variable annuities:** These products are more complex, must be reviewed as annuities and must comply with Federal Trade Commission guidelines.
- Also recently approved have been riders for life insurance policies that permit early payment of limited amounts of the policy's face amount for terminally ill insureds. Several companies have expressed interest in developing this approach to help offset the insured's medical debt during the latter stages of the illness.

Market Conduct Section

This section is part of a program begun by the National Association of Insurance Commissioners for monitoring insurance companies' behavior in the marketplace, especially as it affects consumers. The program began in North Carolina.

The current staff consists of one manager, eleven field examiners and one support person. Examinations are conducted on a rotation basis so that all companies domiciled in North Carolina will be examined on a three-year cycle.

In addition, if problems or complaints related to company practices are brought to the attention of the department, the section has the resources to respond on a priority basis. With the current staffing, it's feasible to draw a third team from two field units without disrupting an ongoing examination.

A company's size usually dictates the number of analysts required for an examination. Most companies require no fewer than four analysts to conduct a thorough, effective examination. Upon completion of the examination and after a report has been submitted to the Commissioner of Insurance, the company is requested to take corrective action based upon recommendations contained in the report.

The culmination of the examination is a report that delineates the standards, laws, regulations, precedents and practices affecting a particular company. The report also provides the legal background for any action the department takes against the company and its agents, and may describe findings in such areas as advertising, regulations, trade practices and solicitation, discriminatory underwriting practices, cancellation and non-renewal requirements, rate filing requirements, incorrect application of rates, and unfair claim settlement practices.

Because state statute requires that companies pay the cost of examinations, market conduct is entirely receipt-supported. It receives no state budget support.

Examinations are now broken down into four categories: general, focus, market segment, and agency examinations. These types of examinations require differing protocols to help ensure that companies are treated fairly and without prejudice or unfair discrimination.

Regulatory Services

Investigations Division

With statutory authority established in 1945, the division is responsible for investigating violations of North Carolina's insurance laws.

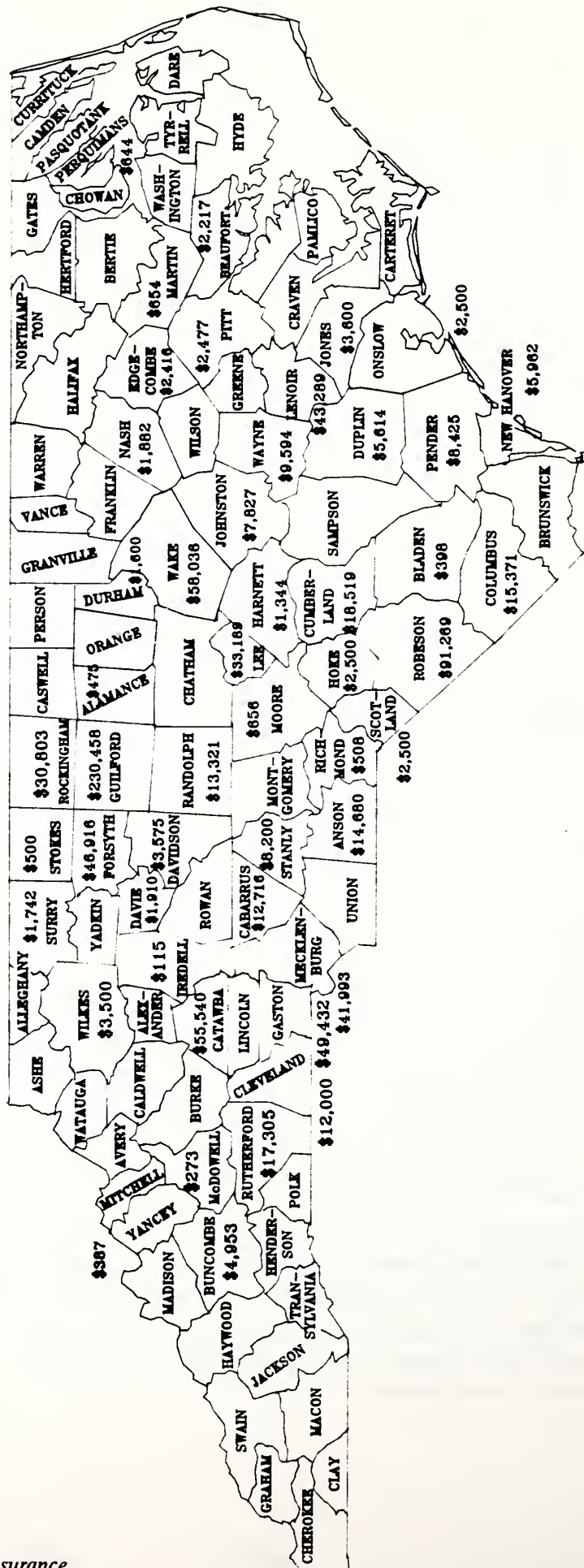
Requests for investigations come from within the department, from consumers, law enforcement agencies, local, state and federal agencies, and insurance companies.

Recently, the division has begun using a data profile for each county in North Carolina, both to expedite investigations work in those counties and to better reflect the amounts of restitution returned to the counties as a result of successful investigations. In January 1989, reports will begin to be generated to produce up-to-date information about investigations completed and continuing.

Recently, the addition of two financial investigator positions has helped increase accountability and productivity in case assignments.

Other improvements include: closer scrutiny and screening of case assignments; an increase in staff development training; improved management procedures; and a tracking system for better coordination and accountability in case assignments.

During 1987-88, the division has recovered over \$875,000 in restitution. (See map.) The money was returned to either insurance companies or consumers as a result of successful investigations.



Staff development training continues for division investigators. Recent training has included:

- Financial investigative techniques
- Search and seizure, civil liability, interrogation, eyewitness and non-testimonial identification
- Covert investigative techniques
- In-depth investigative training
- Annual firearms training
- Office communications
- Police Information Network (PIN) re-certification
- Fundamentals of management
- Proper procedures in radio communications
- Review of North Carolina General Statutes
- Agent licensing changes

Efforts are underway to improve fraud investigation programs through specialization of investigators and by careful review of the percentages of cases investigated and closed.

Through these advances, the Investigations Division will be better equipped and better able to help eliminate insurance fraud in North Carolina.

Special Services Division

This division is responsible for licensing and regulating insurance premium finance companies, professional bail bondsmen and runners, collection agencies and motor clubs.

Since Commissioner Long took office, greater emphasis has been placed on auditing, examination and accounting expertise. Presently there are six investigators, a deputy commissioner, a field supervisor, two accountants, and three secretaries.

The division was instrumental in a 1987 legislative upgrading of bail bondsman qualifications. In the last year, the division undertook a systematic review of the rules and regulations by which regulated industries operate.

The division's productivity continues to grow: in 1985 the field staff completed 308 examinations and in 1986, 361 examinations -- an increase of 17%. In 1987, the staff completed 505 examinations, an increase of 40% over 1986 and 64% over 1985.

In the past year, the division initiated a pilot program to administer the written bail bond examinations in the department's eastern and western regional offices. The program has been very successful in providing potential licensees greater access to state services.

During October and November 1988, the division held four workshops for professional bail bondsmen/runners and surety bail agents. Held in Asheville, Char-

lotte, Raleigh and New Bern, the seminars reviewed the statutory requirements and regulatory guidelines governing the industry.

After each workshop, the licensees were asked to complete a workshop evaluation form. Sample comments were:

"There is no other department that seems to be as interested in our industry as yours."

"I am licensed in 26 states and go to many meetings. This meeting was one of the best."

One of the proudest achievements of this division was the recent intervention in a case that resulted in an insurance company paying to the Hyde County schools over \$114,000 -- one of the highest bail bond forfeitures ever satisfied in North Carolina.

Public Services

Agent Services Division

This division has gone through some major changes during this biennium. There has been a continuing adjustment in operations to better monitor the pre-licensing education program. A constant challenge is the monitoring of schools teaching these courses and refining the testing and reporting functions to assure that the program is producing well-trained insurance agents.

Landmark 1987 legislation which set up a new agent licensing and appointment system is being studied by other states and the National Association of Insurance Commissioners. New rules to comport with the new legislation have been completed and have been through the hearing process for approval.

Agent Licensing Activity: 1987-88

	Examinations	Agents Licensed	Agent Appointments
1987	9,053	250,318	*
1988	10,540	58,540	237,037

*Before 1988, a license was issued for each line of coverage with each company represented. Currently licenses are issued for general lines of coverage; appointments for company affiliations.

The combination of better-trained personnel, new computer applications and the new licensing program have combined to enable the division to produce an agent license within 48 hours after receiving a qualified application. The faster turn-around compares with the six weeks required as recently as 1986.

Consumer Services Division

The Consumer Services Division was established to help North Carolina consumers get answers to their insurance questions and to help solve their insurance problems.

The division has evolved from a small staff to the current 37 full-time employees handling over 40,000 complaints each year. To accommodate the high volume of inquiries, the division is divided into three sections: communications specialists to handle general inquiries; the property and casualty section; and the life, accident, and health section.

In addition to handling inquiries and complaints, the division performs the following functions:

- Coordinates the business activities and counsels policyholders of financially troubled insurance agencies. Coordination includes analysis of purchase transactions and premium finance requirements to determine status of coverages; assisting in resolution of pending claims; helping in the disposition of agency business; making agent licensing and rehabilitation recommendations; and reporting to the investigations division any possible criminal violations.
- Prepares reports of insurance company and agent business conduct for the market conduct section. The reports describe problems and establish a focal point for market conduct review.
- Participates in public forums and discussions on insurance matters with business, community and consumer groups. Division personnel meet regularly with senior citizen groups to discuss life, accident, and health insurance products and issues.
- Joins with other state and federal agencies in assisting victims of natural and other disasters. Personnel are dispatched to disaster centers to discuss policy provisions and facilitate claims for victims.

The period of 1987-88 has been a period of refinement and streamlining in the division:

- Recently, the division installed a new telephone system with computerized call distribution to equalize the workflow among employees and to provide line usage statistics to help in planning communication needs and workflow.
- Another goal during this period has been to better equip personnel to handle inquiries. This has been accomplished by implementing minimal technical educational requirements for each position and developing a career track for employee advancement.

- Within the past year, the division standardized its educational requirements. In addition, the majority of division employees are either enrolled in course work as part of a continuing education program or are studying to obtain professional insurance designations.

Safety Services

Comprised of the Engineering, Manufactured Housing, Risk Management, and State Property Fire Insurance Fund Divisions, the Safety Services Group administers and enforces life safety standards throughout the state, promotes risk management practices throughout all governmental entities, and maintains a sound insurance program for state agencies.

Engineering Division

This division has primary responsibility for administering the state building code. In this capacity, the division also serves as staff to the N.C. Building Code Council and the N.C. Code Officials Qualifications Board.

The division is divided into seven sections: code consultant, electrical, mechanical, modular, inspector certification, accessibility and code council.

Building Code Administration

The division provides code interpretations to city and county inspection officials, architects, engineers, contractors, material suppliers and manufacturers, other state agencies, attorneys and the general public.

In addition, the division administers the certification of code enforcement officials, reviews building plans for code compliance and inspects electrical systems in newly constructed or renovated state-owned buildings.

A significant increase in workload has occurred in 1987-88. The sale of building code publications and building code council materials has increased 50%, field inspections are up 60%, and the renewal of code official certifications has increased 33 percent.

Engineering Division Activities: 1987-88

Plans Reviewed	4,044
Field Inspections	5,415
Office Conferences	3,782
Telephone Information Requests	61,000
Schools, Seminars, and Conferences	488
Building Code Council Meetings	8
Qualifications Board Meetings and Hearings	11
Council and Qualifications Board Committee Meetings	97
Qualifications Board Complaint Investigations	11
Inspector Certification Schools Coordinated	157
Inspector Certification Exams Administered	1,065
Inspector Certification Applications Reviewed	3,000
Inspector Certificates Renewed and Issued	6,000
Modular Certification Manuals Reviewed	22
Modular In-Plant Inspections	45
Modular Field Inspections	8
Code Publication Sales	401,932
Number of Code Publications Sold	101,053
Electrical Certificates of Compliance Issued	716

A significant improvement in efficiency has been achieved by re-organization and increased computer use for keeping track of workload and inventory.

Building Code Council Support

The division staffs the State Building Code Council which is empowered to adopt and amend the state building code, hear appeals on the interpretation of the code, and approve local building regulations which differ from the state code. Code change proposals and appeals are received by division staff.

Code Officials Qualifications Board Support

The N. C. Code Officials Qualifications Board is responsible for developing training schools and state examinations for inspector certification. The schools are required to be coordinated with the Department of Community Colleges and the

Institute of Government. Engineering Division staff are responsible for administering the certification exams -- including preparation, monitoring and grading.

Manufactured Housing Division

The Manufactured Housing Division works to assure that construction standards for manufactured homes are maintained and that the warranty obligations under state law are met. The division monitors the handling of consumer complaints by manufacturers; licenses the makers of manufactured homes, dealers, and set-up contractors; and acts as staff for the N.C. Manufactured Housing Board.

The division also assists local governments in the inspection of homes for proper set-up and tie-down requirements.

Manufactured Housing Division Activity: 1987-88

	1987	1988
Complaints Received	1317	1119
Inspections Completed	835	832
Manufacturers Licensed	86	79
Dealers Licensed	621	677
Set-up Contractors Licensed	245	404
Salespersons Licensed	1504	1800
Hearings Scheduled	253	231

On behalf of consumers, the division is responsible for filing claims against surety bonds in the event dealers or manufacturers go out of business or cannot otherwise fulfill warranty requirements. In 1987, the division collected almost \$69 thousand and in 1988 over \$115 thousand for North Carolina consumers.

During 1987-88, the division instituted a numbered license system for easier reference and greater control.

Under a contract with the National Conferences of the States on Building Codes and Standards, the division provided over a thousand man hours last year to assist in interstate monitoring inspections. Two staff persons participated in 25 inspections.

This division is entirely receipt-supported from license fees and fees received for manufactured homes shipped to our state for sale. There has been a significant decline in the production and sale of manufactured homes during this biennium with no significant increase projected for the near future.

State Property Fire Insurance Fund

This division is primarily responsible for the operation and maintenance of the State Property Fire Insurance Fund. The division collects premiums from those state agencies responsible for payment, investigates claims, adjusts losses and pays losses with the approval of the Council of State.

The division has inspection jurisdiction over 12,000 state-owned buildings with a combined value exceeding \$5 billion.

When requested, the division also procures a variety of coverages from private insurance carriers. The largest program of this kind is the state's automobile insurance program.

Another vital function of the division involves plan approval for new construction and renovation. Plans are reviewed with designers and appropriate agency representatives to achieve construction that is desirable for insurance purposes and safe for building occupants. Emphasis is placed on structural integrity and fire protection.

Notable achievements include:

- An annual premium reduction of approximately \$250,000 in property reinsurance premiums
- Implementation of a property loss deductible schedule
- Changes in the state's automobile insurance program which could result in an annual savings of more than \$250 thousand.

Statutory changes through the years now allow the fund to cover state-owned property for the perils of fire, wind, hail, aircraft, riot, vehicle, explosion, smoke, theft, vandalism, sprinkler leakage, and business interruption. The division also obtains and manages a host of other needed insurance programs for state agencies. These coverages include automobile liability, collision, comprehensive, inland marine, boiler, honesty bond, aircraft, watercraft, and crime.

Annual inspection of state-owned buildings is the responsibility of the inspectors who are certified in the interpretation of codes for fire protection and construction. Reports are made to agency management so deficiencies can be corrected. The staff then aids in correction advice.

Consultation with agencies on updating all types of fire protection systems for existing buildings is a continuous process. There is an intensive effort to further protect major computer installations, libraries, and other areas of high concentration of property value and people.

Risk Management Division

The division was authorized by the 1985 General Assembly and began operations in 1986 to assist local government entities with their property and casualty insurance programs.

The division provides staff, administration, and research services to the Public Officers and Employees Liability Insurance Commission. The commission is charged

with making available a plan of professional liability coverages for law enforcement officers, public officials, and employees of any political subdivision of the state.

The commission meets on a regular basis to hear from consumers, review new programs offered by insurers, and set policies as authorized by statutes.

Since the division's inception, some 37 communities have received complete insurance surveys and risk management services. In addition, the division is becoming a recognized resource through which state agencies can address and resolve problems through a range of risk management techniques.

Function of Risk Management

- Serves as the resource for state agencies in resolving risk management issues with regard to liability coverages and conservation of state assets.
- Serves as a resource for local government in the review of their insurance needs and implementation of risk programs.

The division also administers an excess professional liability policy that provides \$1 million in insurance coverage for 58,000 state employees for losses resulting in bodily injury and property damage and for errors and omissions in the performance of their jobs.

In 1988, rates were reduced by 16% for state employees, saving \$42,000. Also in 1987, rates for community colleges and the university system were reduced 17%, saving \$30 thousand.

Boards and Commissions

North Carolina Public Officers and Employees Liability Insurance Commission

Authorized under Article 2B of Chapter 58 of the N.C. General Statutes, the commission consists of 11 members meeting at least four times per year and is empowered to maintain professional liability insurance coverage for law enforcement officers and officials of political subdivisions of the state.

Mr. Wayne Hooper	N.C. Association of County Commissioners
Mr. Jim Blackburn	N.C. Association of County Commissioners
Mr. Harvey Mathias	N.C. League of Municipalities
Sheriff James L. Sasser	N.C. Sheriffs' Association
Chief Raymond F. Shelton	N.C. Police Chiefs' Association N.C. Police Executives' Association
Mr. Joseph R. Kluttz, CPCU	Independent Agents of North Carolina
Mr. Dal Snipes	Carolina Professional Insurance Agents
Mr. J. Thomas Sutton III, CPCU	Appointed by Speaker of the House
Mr. Ray Lichtner	Appointed by Lieutenant Governor
Ex Officio Members:	
Mr. Dascheil Propes	Department of Insurance
Mr. Eddie Caldwell	Office of Attorney General
Mr. Edward Garner, Jr.	Crime Control and Public Safety

North Carolina Self-Insurance Guaranty Association

A non-profit, unincorporated legal entity of the State of North Carolina, the association was created to provide a mechanism for the payment of covered claims under self-insurance coverages. The association aims to help avoid excessive delay and financial loss to claimants because of the insolvency of self-insurers.

The members of the association's board of directors are:

Ms. Kathy Van Nest, Co-chair	Duke University
Mr. Ken Mitchell, Co-chair	N.C. Home Builders' Association
Mr. M. J. Lamb	Carolina Telephone and Telegraph
Mr. Joseph E. Burns	Aluminum Company of America
Mr. James B. O'Neal	Fieldcrest Cannon, Inc.
Mr. Stephen P. Gennett	Associated General Contractors
Mr. Robert L. Barham	Carolina Power and Light, Inc.
Mr. Doug Schueler	Fred S. James and Company
Mr. Kenneth L. Gipson	Weyerhaeuser Company

North Carolina Code Officials Qualifications Board

The board is organized under the provisions of Chapter 143, Article 9C of the North Carolina General Statutes. Following is the list of members and from whom their appointments were received.

Mr. Phillip P. Green, Jr.	Institute of Government
Mr. Stephen R. Little	Governor
Mr. Schuyler D. Conklin	Lieutenant Governor
Mr. Howard V. Page	Speaker of the House
Mr. Howard H. King	Governor
Mr. E. Frank Davis, Jr.	Speaker of the House
Mr. Mike Pittman	Community Colleges
Mr. Joseph D. Wheliss	Governor
Mr. Ollie R. Cutler	Lieutenant Governor
Mr. Hubert Jefferson	Governor
Mr. Tai Young Lee	Lieutenant Governor
Mr. Perry Plemmons	Speaker of the House
Mr. Dascheil Propes	Commissioner of Insurance
Ms. Virginia Johnson	Governor
Mr. Howard Liner	Speaker of the House
Mr. Kenneth N. Windley, Jr.	Governor
Dr. David Johnston, P.E.	N.C. State University
Mr. W. P. (Bill) Davis	Governor
Mr. W. Thompson Cox, P.E.	Lieutenant Governor
Dr. Peter Rojeski, Jr., P.E.	N.C. A & T State University

North Carolina Building Code Council

N.C. General Statute 143-138 authorizes the N.C. Building Code Council to prepare, adopt and amend the State Building Code. The council consists of 12 members appointed by the Governor for six-year terms. Statute requires that members have expertise in areas relating to construction safety. The council meets quarterly in March, June, September and December.

Mr. Sam Snowdon

Mr. John R. Andrew

Mr. Ralph Cochrane

Mr. Lewis M. Dibble

Mr. J. Scott Harrower

Mr. Clifton N. Bishop

Mr. Robert C. Bowness

Mr. Edward L. Woods

Mr. James W. Smith, II

Mr. Louis R. Dickerson

Mr. Clayton S. Lineberger

Mr. Harmon Byrd

North Carolina Manufactured Housing Board

The board is empowered to issue and revoke licenses, require bonds, resolve complaints, and promulgate rules as necessary to carry out these goals. Following is the list of members and from whom they received their appointments.

Insurance Commissioner Jim Long:	Chairman
Ms. L. C. Barbara Allen	Commissioner of Insurance
Mr. Frank W. Ballance	Commissioner of Insurance
Mr. Thomas M. Tunstall	Governor
Mr. Don L. Woodward	Governor
Mr. G. Stanton Taylor	Speaker of the House
Mr. Ken Johnson	Speaker of the House
Ms. Becky Dobbins	Senate President Pro Tem
Mr. Clyde Lawson	Senate President Pro Tem

North Carolina Health Insurance Trust Commission

Organized under G.S. 759, the commission was established to make affordable health insurance available to small business employees and their dependents.

Staffed by the Department of Insurance and the N.C. Foundation for Alternative Health Programs Inc., the commission has recently published a health insurance guide for small businesses.

The commission members are as follows:

Mr. Shannon Brown: Chairman

Mr. Dennis R. Barry

Mr. Jim Bernstein

Dr. Charles E. Cook

Mr. John R. Griffin, Jr.

Dr. Barbara Kitchell

Dr. Michael E. Steiner

Mr. Thomas W. Swann

Mr. Brad Thompson

Mr. Jim Long, Insurance Commissioner

North Carolina Medical Database Commission

The N.C. Medical Database Commission is mandated by G.S. 131E-211 to establish a statewide health care information database and to serve as a clearinghouse for that information.

Currently the commission collects hospital inpatient discharge data from 156 acute care, psychiatric, and rehabilitation hospitals in North Carolina. With the exception of a state government representative-at-large appointed by the Governor, commission members are appointed by the General Assembly.

Following is the list of members:

Ms. Sandra Greene, Chair

Mr. Robert Wall, Vice-Chair

Mr. Bryant Aldridge

Mr. Walter Clark

Mr. Robert L. Luddy

Dr. Philip L. Martin

Mr. Richard H. Shachtman

Mr. Duncan Yaggy

Ex Officio Members:

Mr. Jim Long, North Carolina Commissioner of Insurance

Mr. David T. Flaherty, Secretary, N.C. Department of Human Resources

Executive Director:

Ms. Janis L. Curtis

North Carolina Fire Commission

The N.C. Fire Commission is charged with developing certification standards for all levels of fire service personnel and coordinating the state's involvement with the Federal Emergency Management Agency and the U. S. Fire Administration.

The commission is also responsible for developing a master plan for fire prevention and control, increasing professional skills of fire protection and firefighting personnel, serving as a central clearinghouse of information relating to the state's fire service activities, and handling federal and state grants.

Following is the list of members:

Mr. Dave Cauble, Chairman	Nash County Fire Marshal
Mr. Bobby Joyner	Pitt County Fire Marshal
Mr. Rupert Little	Catawba Co. Ass't. Fire Marshal
Mr. Rick Hall	Summerfield Fire Chief
Mr. Richard Trexler	Colfax Fire Chief
Mr. Ted Woodruff	Alderman, City of Canton
Mr. H. T. Taylor	Robeson County Commissioner
Mr. Wiley Wooten	Appointed by N.C. Speaker of the House
Mr. Carroll Hemphill	Appointed by Senate President Pro Tem
Mr. David Cope	Appointed by Governor
Mr. Cloyce Anders	Citizen Member
Mr. F. C. Hendrix	Hendersonville Fire Chief

The following state officers serve as non-voting members by virtue of their offices:

The Commissioner of Insurance
The Commissioner of Labor
The State Auditor
The Attorney General
The Secretary of Crime Control and Public Safety
The Secretary of Natural Resources and Community Development
The President of the Department of Community Colleges

Executive Director:

Mr. Timothy L. Bradley

North Carolina Arson Awareness Council

The duties and responsibilities of the council include: making recommendations for reducing arson in North Carolina; administering an arson reward program; and developing a comprehensive arson program to benefit the general public, fire service, law enforcement agencies, insurance industry and judicial system in North Carolina.

Following is the list of members and the organizations they represent:

Chairman: Mr. Jim Long	Commissioner of Insurance
Vice Chairman: Mr. Robert Morgan	State Bureau of Investigation
Co-treasurer: Mr. John Allen	Nationwide Mutual Insurance
Co-treasurer: Mr. Marvin Wilson	N.C. Joint Underwriting Association
Secretary: Mr. Phil Riley	N.C. Department of Insurance
Mr. Bob Bird	Independent Insurance Agents of N.C.
Mr. David Conklin	Bureau of Alcohol, Tobacco and Firearms
Mr. Don Bonine	International Arson Investigators
Mr. J. E. Hawkins	N.C. Fire Chiefs' Association
Mr. Ken Farmer	Department of Community Colleges
Mr. Marvin Williams	N.C. Justice Academy
Ms. Evelyn Bickley	Carolina Professional Insurance Agents
Mr. Ray Eastman	Arson Unit, State Bureau of Investigation
Mr. John Knowles	N.C. Association of Fire Marshals
Mr. Willard Herring	N.C. Firemen's Association
Mr. David Waller	Wake County Sheriff's Department
Ms. Dian Duncan	N.C. Adjusters' Association
Mr. Tim Bradley	N.C. Fire Commission
Ms. Martha Waters	N.C. Insurance News Service

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